

Members

Rep. John Frenz, Co-Chairman
Sen. Luke Kenley, Co-Chairman
Rep. Eric Turner
Sen. Lindel Hume
Sandra Bickel
Joe Breedlove
Daniel Clark
Amy Corsaro
Deborah Driskell
Les Fox
Phil Hoy
S. Michael Hudson
Mike Karickhoff
Patrick Kiely
Joseph Loftus
Joseph Minnis
J. Daniel Philpott
Bill Roach
Jason Shelley
Don Strietelmeier
John Taylor
Thomas Taylor
Ernie Wiggins
Louis Zickler



PROPERTY TAX REPLACEMENT STUDY COMMISSION

Legislative Services Agency
200 West Washington Street, Suite 301
Indianapolis, Indiana 46204-2789
Tel: (317) 233-0696 Fax: (317) 232-2554

LSA Staff:

Robert Bond, Attorney for the Commission
George Angelone, Attorney for the Commission
John Rowings, Attorney for the Commission
Diane Powers, Fiscal Analyst for the Commission
Jim Landers, Fiscal Analyst for the Commission
Dagney Faulk, Fiscal Analyst for the Commission
John Parkey, Fiscal Analyst for the Commission

Authority: P.L. 64-2004

MEETING MINUTES¹

Meeting Date: June 18, 2004
Meeting Time: 1:00 P.M.
Meeting Place: State House, 200 W. Washington St.,
Room 404
Meeting City: Indianapolis, Indiana
Meeting Number: 3

Members Present: Rep. John Frenz, Co-Chairman; Sen. Luke Kenley, Co-Chairman; Sen. Lindel Hume; Sandra Bickel; Joe Breedlove; Deborah Driskell; S. Michael Hudson; Mike Karickhoff; Patrick Kiely; Joseph Loftus; Joseph Minnis; J. Daniel Philpott; Bill Roach; Don Strietelmeier; Thomas Taylor; Louis Zickler.

Members Absent: Rep. Eric Turner; Dan Clark; Amy Corsaro; Les Fox; Phil Hoy; Jason Shelley; John Taylor; Ernie Wiggins.

Representative John Frenz, Commission Co-Chairman, called the third meeting of the Property Tax Replacement Study Commission to order at 1:00 P.M.

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.ai.org/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

Representative Frenz asked for a moment of silence for the American hostage that was killed overseas.

Senator Kenley explained that there would be no more separate discussion groups after this meeting due to the Legislative Council resolution which prohibits the establishment of subcommittees. Future agendas and support would be handled by Representative Frenz and Senator Kenley.

Senator Kenley indicated that Judge Thomas Fisher had provided a book for the Commission and staff titled "Local Tax Policy: A Federalist Perspective" by David Brunori (Exhibit A). Senator Kenley added that he had read the book and it would be good reading for the Commission members and staff. The book was donated, compliments of Judge Fisher and the Lincoln Institute of Land Policy.

Senator Kenley called for the discussion groups to meet and for the full Commission to reconvene at 1:35 P.M.

The Subcommittee reconvened at 1:45 P.M

Senator Kenley and Representative Frenz recognized each of the discussion group chairmen to give a report on their respective meetings to the full Commission.

Commissioner Mike Karickhoff reported on the activities of Group II (Local Government Services), including Exhibit B containing a letter from Representative Turner asking for incentives from the state to encourage local units of government to gain synergies in order to reduce costs; establish a state-funded local government efficiency commission; and develop public policies that would encourage alternatives to publicly funded education. Exhibit B included information compiled by the Legislative Services Agency (LSA) showing that Indiana is behind the national average on the percent of those going to private schools.

Senator Kenley asked members of the discussion group to share particular examples of cost reducing measures. Commissioner Deborah Driskell explained that in the realm of purchasing, shared use of Haz-Mat Units has been considered. Indiana University is also about to be commissioned to begin a local government efficiency study. Commissioner Driskell stressed that there are many opportunities on all levels of government to conserve funds and improve efficiency.

Commissioner Thomas Taylor reported that Group I (Property Tax Administration) is attempting to measure administrative costs to gauge efficiency at the county/township level. Current information showed an average of \$57.5 M in administrative costs over the last five years, which is approximately 1% of total revenue. (See Exhibit C) Their discussion group is also looking into a uniform database system. Commissioner Taylor noted that the Indiana Supreme Court has recently gone to a similar system and asked if the same type of system would work for property taxes. Commissioner Taylor also noted that they are looking into the availability of training programs for assessors to increase professionalism. Commissioner Sandra Bickel explained that the cost of administration is the same even if the amount of property tax is reduced.

Senator Kenley recognized Beth Henkel, Commissioner for the Department of Local Government Finance (DLGF), for her thoughts on the new rules, such as neighborhood factors, that can be used to create efficiencies in the assessment process. Ms. Henkel explained that the neighborhood factor is a bedrock of the assessment system. She stated that the assessment manual or rules cannot be changed until 2009 without legislation. Representative Frenz noted that the next reassessment is in 2007. Senator Kenley asked if there were ways to

find efficiencies and simplify the system. Ms. Henkel stated that a statewide computerized system is currently being explored but that she could not advocate either way at this time.

Commissioner Patrick Kiely commented on data from previous years that showed in excess of \$400 M to run the reassessment process. Commissioner Don Strietelmeier asked why there is an Ohio firm contracted to do the reassessment and if there were local firms available to do the same work. Ms. Henkel explained that some counties did use local resources to do reassessment, while others used outside contractors. She also commented that the township assessors could do the reassessment themselves if it was done on an annual basis, but it is currently a local decision to contract the work out. Commissioner Taylor added that Ms. Henkel had agreed to meet and share information with their discussion group on her report to the Commission on State Tax and Financing Policy.

Commissioner Patrick Kiely reported that Group III (Long-Term Debt Issues) asked LSA five questions (See Exhibit D.):

- (1) List of types of bonds backed by property taxes and a description of their uses.
- (2) A listing of authorizing bodies and the statutory cites for various bonding authorities.
- (3) A breakdown of current bonds outstanding by type of governmental entity.
(Commissioner Kiely explained that the best source for this information was www.citysecurities.com.)
- (4) A state-by-state comparison of total debt. (The discussion group asked Chuck Mayfield, Fiscal Analyst for the Commission, to rank the states by total debt.)
- (5) An explanation of the Petition Remonstrance Process.

Commissioner Kiely added that it is difficult to make a policy recommendation based on current data and that there should be a state reporting requirement to make data more readily available. Education debt information is available and is a good source of data to see what effect reassessment is having on schools.

Senator Kenley asked about lease/rental borrowing, noting that Indiana has a constitutional debt limit of 2%. Senator Kenley explained that the limit did not really stop the issuance of debt since local units of government can create a holding corporation to bypass the constitutional debt limits. Commissioner Hudson asked if there were non-elected members who can issue debt. Senator Kenley stated that library boards were permitted to issue debt. Senator Kenley then asked Ms. Henkel about the review process for government obligation bonds and lease-rental agreements.

Commissioner Mike Hudson reported that Group IV (Other State Tax Systems) looked at revenue sources, taxing and success, and economic relief techniques of other states. (See Exhibit E.) Commissioner Hudson explained that in Indiana, 18.7% of its local revenue comes from property taxes. The next highest state was Illinois, and the lowest was Alabama. Commissioner Hudson noted that in considering sources and uses of funds, Indiana spends more on a percentage basis on higher education than Illinois, while Michigan is similar to Indiana. Commissioner Kiely commented that property taxes are driven by the industrial base and not wealth. Commissioner Hudson stated that they did not intend on drawing conclusions from this data but it did generate additional questions, and he is looking for guidance from the Co-Chairmen on how to proceed.

Senator Hume reported that Group V (Property Tax and Levies and Controls) reviewed handouts compiled by the LSA staff. (See Exhibit F.) Commissioner Joe Loftus solicited testimony from the public during their discussion group on how to approach alternate sources of revenue when property taxes are reduced. Commissioner Loftus stressed that there must be stable sources of revenue in place before property taxes can be eliminated and suggested that a local rainy day fund could help with revenue fluctuations. Commissioner Deborah Driskell

commented that some counties have adopted a county option income tax, and she discussed the situation in Hamilton County. Senator Kenley explained that the situation in Hamilton County was unique and that the legislature has been working to resolve some of these issues with the distribution of local option income taxes back to local units.

Commissioner Patrick Kiely noted that other counties have had significant reductions in local option income taxes. Representative Buck suggested that they could look into the direct payment of local option income taxes to the local treasury to bypass sending the monies to the state.

Co-Chairman Frenz then asked for public testimony. Katrina Hall representing the Indiana Farm Bureau distributed a handout (see Exhibit G) to the Commission and noted that the Farm Bureau has had a long-term policy to promote the reduction or elimination of property taxes. With reassessment, tax shifts occurred and agricultural taxes increased in every county except two. Senator Kenley asked how much of the shift was due to an increase in levies. Ms. Hall said she would get that information to the Commission. Ms. Hall explained that some issues that her members are concerned with are: the fairness of the \$1050 rate per acre compared with market value; using cash rents; and eroding levy controls. Ms. Hall agreed that tax systems need to be transparent, and that it is currently difficult to get accurate data. Commissioner Kiely stated that farm prices are driven by net income. Ms. Hall stated that the \$1031 swap prices add \$1,000 to the value of farm land. Commissioner Strietelmeier noted that farm land has held its value well over the years. Representative Frenz commented that Illinois has a 1.5% tax on net income and no personal property tax. Ms. Hall concluded by thanking the Commission and staff for all of their work.

The next public testimony was given by Paul Hatfield, Pigeon Township Assessor in Vanderburgh County. Mr. Hatfield began his presentation by stating that locals have spent more money than what was needed on reassessment. Hatfield explained that the basis for his proposal was equalization with fair and honest valuing of properties by taking politics out of the process. Mr. Hatfield explained his proposal calling for the elimination of all township and county assessors to be replaced by a bureaucratic state official called a "Property Valuator" (See Exhibit H). Mr. Hatfield explained that his proposal will lead to higher assessments and lower tax rates. Mr. Hatfield explained that Vanderburgh County's total cost was \$12,773,872 for 80,692 parcels with an average of \$158.30 per parcel, which he considered an outrageous use of tax dollars. Mr. Hatfield added that he did not anticipate being a contender for his proposed position of Property Valuator and that his proposal could cut costs in half. He also suggested the need for professional appraisers and a judge to be on the PTABOA Boards.

Commissioner Strietelmeier asked Mr. Hatfield what his definition of a "fair assessment" was, and Mr. Hatfield replied that a fair price was the current market value. Strietelmeier asked whether the \$35,000 homestead credit was "fair," and Mr. Hatfield replied that he did not see any problem with it. Commissioner Kiely asked who should appoint the Property Valuator if politics were to be removed from the process. Mr. Hatfield replied that in Evansville a proper appointing body would be the president of the county council, the city council, or the mayor.

The next public testimony was given by Chris Surber, a candidate for House District 54. Mr. Surber distributed a copy of his written testimony to the Commission (See Exhibit I). Mr. Surber's proposal is based on an income tax system, and he explained that the major advantage of replacing all property taxes is to save the administrative costs of the assessment system. Commissioner Hudson asked if Mr. Surber had examined other states' economies that do not use income tax to support local government. Mr. Surber stated that the government's focus should be on creating jobs and maintaining the economy and that by removing economic constraints the economy would inevitably improve. Commissioner Strietelmeier asked if the net income tax would be graduated. Mr. Surber explained that it should be graduated based on economic ability to pay.

Next Co-Chairman Frenz recognized Mr. T. Fields. Mr. Fields distributed a handout to the Commission (see Exhibit J) that included ways to replace or ease property tax burdens on homeowners. Mr. Fields commented that he had read an editorial authored by Co-Chairman Frenz and Co-Chairman Kenley that appeared in the *Indianapolis Star*. Mr. Fields shared his personal experience of the impact of reassessment on his two-year-old, 4,000 sq. ft. home. Mr. Fields explained that the property taxes on his home increased from \$7,000 to \$10,000 and that his case was currently pending in the appeal system. His home was assessed at \$569,000, but a market appraisal of the home was \$424,000. Senator Kenley strongly encouraged Mr. Fields to contact Senator Lubbers and explain the situation, and added that Mr. Fields had a good chance of succeeding in his appeal. Commissioner Zickler asked if Mr. Fields would sell his home for the assessed value and Fields replied affirmatively.

After Commission discussion, the next meeting date was set for July 28, 2004, at 1:00 P.M.

Co-Chairman Frenz explained that there had been a request from Representative Charlie Brown for the Commission to hold a meeting in Gary and noted that the Chairmen have had other requests for meetings in various parts of the state. Representative Frenz stated that other committees have held meetings in various parts of the state and that the Commission could not meet at all requested locations, so the Commission would continue to hold its future meetings at the State House.

The meeting was adjourned at 4:00 P.M.